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October 6, 2005

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MASS. DEPT. OF
TELECOMMUNICATIONS
AND ENERGY

By Hand

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 04-39; Special 2005/2006 Heating Season
Weatherization Rebate Program

Dear Secretary Cottrell:

Introduction

We are writing on behalf of Bay State Gas Company ("Bay State" or "Company") in accordance with the Settlement Agreement approved on September 13, 2004 in Bay State Gas Company, D.T.E. 04-39 (the "D.T.E. 04-39 Settlement"). In particular, we are writing pursuant to Section II.G of the D.T.E. 04-39 Settlement (which is attached hereto as Attachment A for your convenience of reference) with respect to the expenditure and recovery of funds that, potentially, will be in excess of the 2005/2006 program year pre-approved budget amounts set forth in the D.T.E. 04-39 Settlement. For the reasons detailed below, the Company respectfully requests that the Department approve its Special 2005/2006 Heating Season Weatherization Rebate Program (the "Rebate Program"). The Rebate Program, the need for such Program, and the benefits thereof are further described below.

The Unique Circumstances of the 2005/2006 Heating Season.

Given the effect of the devastating hurricanes in the Southern United States, as well as other factors, it is anticipated that natural gas commodity costs will be very high for the 2005/2006 heating season. The Governor, The General Court, the Department of Telecommunications and Energy ("Department"), the Division of Energy Resources ("DOER") and the Attorney General have all indicated their concerns with such costs and have urged local distribution companies to assist customers in addressing such costs. The proposed Rebate Program is just such a step. In

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short, it allows each residential customer, including low-income customers, to take pro-active steps in advance of the heating season to install individualized weatherization measures specifically tailored to their home. The Rebate Program (along with the other collaboratively developed, state-of-the-art energy efficiency efforts pre-approved in the D.T.E. 04-39 Settlement) empowers customers to help address anticipated increased heating costs as soon as this Autumn. As detailed below, a core benefit of this special Rebate Program is that a customer can act to save energy immediately without the need to wait for an audit or major measure installation under one of the Company's other energy efficiency programs.

Description of the Rebate Program.

Given the unprecedented factors noted above, Bay State seeks to offer customers creative options that are above and beyond its existing energy efficiency programs, all of which will continue unaffected by the Rebate Program. In particular, Bay State has developed the following template for a Rebate Program.

- Target: All residential (including low-income) customers residing in 1-4 family homes and on the Company's residential heating rates (Rates R-3, T-3, R-4 and T-4).
- Intent: To give customers an easy, immediate means to help reduce energy bills by self-installing readily available and low cost energy saving materials.
- Measures: Basic weatherization materials, including weather-stripping, caulking, door sweeps, pipe insulation. Each of these measures was screened for cost-effectiveness in connection with the D.T.E. 04-39 Settlement and found to be cost-effective or is currently offered through the Company's DTE and DOER-approved RCS program. Attachment B shows the list of eligible measures on a sample proposed program announcement/rebate form.
- Maximum Incentive: \$25 per customer.
- Mechanism: Bill Insert and Mail-in Rebate Form with customer affidavit of installation, accompanied by copy of receipts and original UPC codes, to be handled and processed internally by Bay State. Bay State would look to coordinate with hardware stores in marketing.

Mary L. Cottrell, Secretary

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- Savings: Stipulated/bundled 10 therms of savings per participating customer. These values are based on estimates used in D.T.E. 04-39 and are conservative. These savings would be utilized for all regulatory purposes.
- Barriers: Overcomes the need to schedule and wait for full energy audit when customers are able to identify and self-install low-cost measures on their own.
- Est. Budget: \$700,000. Actual expenditures will vary based on customer uptake of this new initiative.
- Est. Participation: 25,000 customers.
- Est. therm saving: 250,000 therms.
- Cost recovery: Through the existing well-established conservation charge ("CC") mechanism. The Company does not seek a performance incentive for this program and would recover any lost base revenue through the CC mechanism utilizing stipulated savings for administrative efficiency.
- Term: This special program would terminate on April 30, 2006. The Company could re-evaluate for future use based on in-the-field experience.

The overall concept is that a customer will be able to go to his or her local hardware store, purchase and install the qualifying measures that are most needed by that individual, and submit, for full reimbursement, up to \$25.00 per customer for material costs. The Company will have the right to perform spot inspections of participating customers and the rebate form will contain a customer statement verifying actual installation in their home and acknowledging that the Company is not liable for installations. Customers may still apply and participate in other D.T.E. 04-39 programs. The major benefit is that customers can take action before, or shortly after the beginning of the heating season and immediately start to realize increased comfort and savings. Bay State hopes the Rebate Program will help customers, including its valued low-income customers, feel more empowered. For maximum benefit, it would be appreciated if the Department could act on this request on an expedited basis.

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Department Approval.

Under the D.T.E. 04-39 Settlement, in Year One, the Company spent approximately \$1,827,000 in the Residential Sector out of an overall pre-approved budget of \$2,496,132. Rolling unexpended Year One funds (approximately \$669,000) forward into the current program year (Year Two), may likely more than cover the cost of this new initiative and accordingly, it is possible that the Company could take the position that Department pre-approval of the Rebate Program is not required given the flexibility provisions of Section II.F of the D.T.E. 04-39 Settlement.¹ However, given the innovative nature of the Rebate Program and the possibility of more extensive than anticipated customer uptake, the Company believes it is prudent to seek the Department's approval of the Rebate Program on an expedited basis in accordance with Section II.G of the D.T.E. 04-39 Settlement. In seeking such approval, the Company will be able to benefit from any suggestions the Department may have with respect to the Rebate Program. Also, to the extent the Department believes the Rebate Program has merit, it conceivably could be utilized by other local distribution companies interested in lowering customer bills this winter. Additionally, the Company will review the proposed Rebate Program with the other Settling Parties to the D.T.E. 04-39 Settlement and seek their support for this initiative. The Company will report on these discussions, but does not want to have such discussions delay the filing of this request with the Department given the imminent heating season. We note that the Company is not proposing to reallocate any funds away from low-income programs and will continue to offer all of the energy efficiency efforts described in the D.T.E. 04-39 Settlement.

¹ Certain unexpended Year One funds are being applied specifically to low-income efforts in coordination with local WAP agencies.



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Conclusion

In sum, we respectfully request the Department's expedited approval of the Rebate Program as detailed herein, including cost recovery for expenditures for such Program. Should you have any questions with respect to this request, please do not hesitate to contact the undersigned at (617) 556-3885, Stephen Bryant at (508) 836-7000 or Derek Buchler at (508) 836-7344. The Company believes the Rebate Program can provide real time benefits for customers looking for ways to address heating costs this winter. We appreciate your consideration of this request.

Very truly yours,

A handwritten signature in cursive script that reads "Emmett E. Lyne".

Emmett E. Lyne

cc: Andrew Kaplan, Esq., DTE
George Yiankos, DTE
Michael Killion, Esq., DTE
Steven Venezia, Esq., DOER
Jerrold Oppenheim, Esq., Low-Income Energy Affordability Network
Stephen Bryant, Bay State Gas Company
Patricia French, Esq., NiSource Corporate Services
Derek Buchler, Bay State Gas Company
Marjorie Izzo, Bay State Gas Company
Kara Gray, Bay State Gas Company

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Attachment A

D.T.E. 04-39 Settlement Agreement

Emmett E. Lyne
Direct Dial (617) 556-3885
EMail: ELyne@RichMaylaw.com

August 12, 2004

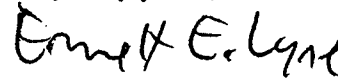
Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 04-39

Dear Secretary Cottrell:

I am pleased to file herewith an original and a copy of: a) the Joint Motion for Approval of Settlement Agreement; and b) the Settlement Agreement in the above-referenced proceeding. The settling parties respectfully request that the Department approve the Settlement Agreement on or before September 15, 2004. We will also follow up with an electronic filing and additional copies of these materials over the next several days. Please do not hesitate to call me with any questions regarding these matters.

Very truly yours,



Emmett E. Lyne

cc: George Yiankos, DTE
Michael Killion, Esq., DTE
Kevin Penders, Esq., DTE
- Steven Venezia, Esq., DOER
Jerrold Oppenheim, Esq., Low-Income Energy Affordability Network
Stephen Bryant, Bay State Gas Company
Patricia French, Esq., NiSource Corporate Services
Derek Buchler, Bay State Gas Company
Marjorie Izzo, Bay State Gas Company

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COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

BAY STATE GAS COMPANY --)
_____))
_____)

D.T.E. 04-39

JOINT MOTION FOR APPROVAL OF SETTLEMENT AGREEMENT

Pursuant to 220 C.M.R. § 1.10(8), Bay State Gas Company, the Department of Telecommunications and Energy Settlement Intervention Staff ("SIS"), the Low Income Energy Affordability Network et al., and the Division of Energy Resources of the Commonwealth of Massachusetts (hereinafter collectively referred to as the "Settling Parties") jointly request that the Department of Telecommunications and Energy approve the Settlement Agreement in this proceeding, on or before September 15, 2004.

Respectfully submitted for the Settling Parties by their attorneys and/or principals.

BAY STATE GAS COMPANY

By: _____

Stephen H. Bryant / EC
Stephen H. Bryant, President
Bay State Gas Company
300 Friberg Parkway
Westborough, MA 01581
(508) 836-7000

DEPARTMENT OF TELECOMMUNICATIONS
AND ENERGY
SETTLEMENT INTERVENTION STAFF

By: _____

Kevin F. Penders / EC
Kevin F. Penders, Esq., Hearing Officer
Department of Telecommunications
and Energy
One South Station, Second Floor
Boston, MA 02110
(617) 305-3500

THE DIVISION OF ENERGY RESOURCES

By: _____

Steven I. Venezia / EC
Steven I. Venezia, Esq.
Division of Energy Resources
100 Cambridge Street Suite 1020
Boston, MA 02114

THE LOW-INCOME INTERVENORS

By: _____

Jerrold Oppenheim / EC
Jerrold Oppenheim, Esq.
LEAN
57 Middle Street
Gloucester, MA 01930

Dated: As of August 12, 2004

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

BAY STATE GAS COMPANY)
PRE-APPROVAL OF ENERGY EFFICIENCY)
PROGRAMS AND RECOVERY OF ENERGY)
EFFICIENCY RELATED COSTS)

D.T.E. 04- 39

SETTLEMENT AGREEMENT

Bay State Gas Company ("Bay State" or "Company"), Settlement Intervention Staff ("SIS") appointed by the Department of Telecommunications and Energy ("Department"), the Division of Energy Resources ("DOER") and the Low-Income Weatherization and Fuel Assistance Network, the Massachusetts Community Action Program Directors Association, Inc. and the Low-Income Energy Affordability Network ("LEAN") (collectively the "Low-Income Intervenors") hereby agree, as provided herein and subject to approval of the Department, to resolve all issues relating to the Company's request for pre-approval of residential and commercial and industrial ("C&I") energy efficiency and market transformation initiatives. The Company, SIS, DOER and the Low-Income Intervenors are collectively referred to as the "Settling Parties."

I. **BACKGROUND**

The Company currently operates comprehensive energy efficiency programs and market transformation initiatives targeting the residential and C&I customer sectors. These programs are operated pursuant to the Settlement Agreement approved in Bay State Gas Company, D.T.E. 01-27 (July 19, 2001 ("D.T.E. 01-27 Settlement")) and extended on an interim basis by the

Department's April 21, 2004 approval of the Company's Motion for the Interim Continuation of Existing Energy Efficiency Programs ("Interim Extension") filed on March 30, 2004. The D.T.E. 01-27 Settlement built upon the energy efficiency programs developed and approved in the Company's previous demand-side management ("DSM") settlements: Bay State Gas Company, D.P.U. 91-272 ("D.P.U. 91-272 Settlement"); Bay State Gas Company, D.P.U. 95-117 (the "D.P.U. 95-117 Settlement"); Bay State Gas Company, D.P.U. 96-76 ("D.P.U. 96-76 Settlement"); and Bay State Gas Company, D.P.U. 96-98 ("D.P.U. 96-98 Settlement").

The Company's pre-approval request in D.T.E. 04-39 was made by means of the filing of an Initial Petition along with detailed supporting testimony and materials on March 30, 2004 (the "March 30, 2004 Filing"). Said filing provided the information required for DSM program extensions as set forth by the Department in the proceedings in Colonial Gas Company, D.P.U. 94-105 (1994), as well as the general information required by the Department for the pre-approval of DSM programs. *See generally* Cambridge Electric Light Company/Commonwealth Electric Company, D.P.U. 89-242/246/247 (1990). By the Department's Order of Notice dated April 29, 2004, a deadline of May 20, 2004 was set for petitions seeking intervention or participation and a public hearing was scheduled for June 3, 2004. Other than SIS, which was appointed by the Department on June 2, 2004, the DOER (which filed a Petition to Intervene on May 20, 2004) and the Low-Income Intervenors (who filed a Petition to Intervene on May 20, 2004) were the only parties to have sought intervention or participation in the proceedings. After the public hearing on June 3, 2004, the Settling Parties had several discussions. The Settling Parties have now reached this Settlement for which they seek the Department's approval. In reaching this Settlement, the Settling Parties seek to allow for the continuation and enhancement of the Company's energy efficiency and market transformation efforts in a manner that responds to the needs of all of the

Company's customers, including hard-to-reach low-income customers, that increases the efficiency of gas used in the Company's service territory, and that is appropriate to the competitive natural gas marketplace. The Settling Parties anticipate that energy efficiency programs and market transformation initiatives will continue to serve an important role as the gas marketplace evolves, but this Settlement only addresses the Pre-Approval Period (as defined below).

II. TERMS OF SETTLEMENT

- A. Residential Energy Efficiency Programs. The Company's proposed residential energy efficiency programs (consisting of: (1) the Residential Custom Measures Program and (2) the Residential Low-Income Program, as well as the residential market transformation efforts described in more detail in Section II.C below) as set forth in the Company's March 30, 2004 Filing are approved for operation during the five year period commencing May 1, 2004 and ending April 30, 2009 (the "Pre-Approval Period"). In order to implement the Low-Income Program, the Company will continue to coordinate its efforts with the non-profit, weatherization assistance program agencies in its service territories as set forth in the March 30, 2004 Filing and provide two percent (2%) of its low-income expenditures to LEAN in order to provide coordination and program services benefiting the Company's low-income customers.

The total amount of expenditures which are pre-approved for recovery for the five-year Pre-Approval Period for the Company's residential energy efficiency programs, inclusive of market transformation efforts, shall be \$13,297,517. A summary of these expenditures for each of the residential programs agreed upon by the Settling Parties is included in Exhibit One. Exhibit One A contains certain

enhancements to the Company's March 30, 2004 filing with respect to low-income programs that the Settling Parties agree to implement upon the Department's approval of this Settlement. Such enhancements do not result in changes to the low-income budgets set forth in the Company's March 30, 2004 filing, but do entail certain new measures and reflect current prices based upon a competitive RFP process run and overseen by the Department of Housing and Community Development.

B. C&I Energy Efficiency Programs. The Company's proposed C&I energy efficiency programs (including the Multifamily Custom Measures Program, The Small C&I Custom Measures Program, and the Medium and Large C&I Custom Measures Program, as well as the C&I market transformation efforts described in more detail by Section II.C below) as described in the March 30, 2004 Filing are approved for operation during the Pre-Approval Period. The total amount of expenditures which are subject to pre-approval as recoverable for the Pre-Approval Period for the Company's C&I energy efficiency effort, inclusive of market transformation efforts, shall be \$15,289,764. A summary of these expenditures for the C&I programs is included in Exhibit One.

C. Market Transformation Initiatives. The Settling Parties agree that the Company's residential and C&I energy efficiency programs will assist in market transformation that can help "create long-term changes that reap continuous energy efficiency savings at low cost." Electric Industry Restructuring, D.P.U. 96-100, at 67 ("D.P.U. 96-100").¹ The Settling Parties anticipate that utility-sponsored market

¹ In D.P.U. 96-100, the Department defined market transformation initiatives to mean "strategic efforts to offset market

transformation initiatives will continue to become more refined as the Pre-Approval Period progresses. In addition, the Settling Parties recognize that, in addition to more traditional energy efficiency efforts (for example, involving audits and the installation of qualifying measures), the Department has endorsed market-driven energy efficiency initiatives that are designed to take advantage of "market opportunities for more efficient use of energy at a time when it is most practicable and inexpensive to do so, such as during new construction, renovation, equipment replacement or at the time of purchase of new equipment." *Id.*; see also Boston Gas Company, D.P.U. 94-109 (Phase II), at 6, Interim Order on Gas Demand Side Management (1996); Western Massachusetts Electric Company, D.P.U. 96-8-CC, at 7 (1996). In order to address these directives during the Pre-Approval Period, the Company will undertake the market transformation initiatives described in the March 30, 2004 Filing.

These initiatives include, without limitation, potential collaboration with third-party finance companies to provide low-interest loans for the Company's residential and C&I customers; sponsoring educational and training efforts, including Massachusetts Building Code Support; and sponsoring regional GasNetworks® programs. Such GasNetworks® programs are detailed in the March 30, 2004 Filing and include: 1) the Residential High Efficiency Heating Rebate Program, 2) the Residential High Efficiency Water Heating Rebate Program, 3) the Residential ENERGY STAR Thermostat Rebate Program, 4) the ENERGY STAR Homes Program, 5) the C&I Infrared Rebate Program, 6) the C&I High Efficiency

failures and to induce lasting structural or behavioral changes that result in increases in the adoption or penetration of

Heating Rebate Program, 7) the C&I High Efficiency Water Heating Rebate Program, 8) the C&I ENERGY STAR Thermostat Program, 9) the C&I Efficient Food Service Equipment Rebate Program, and 10) the ENERGY STAR Windows Program.

In the event the Company undertakes incremental market transformation initiatives beyond those set forth herein, the Company proposes to be granted the right, without the need for further pre-approval, to reallocate up to forty-five percent (45%) of the annual budget for its Residential and C&I energy efficiency programs to such new initiatives. Nothing in the foregoing shall preclude the Company from expending additional funds as is expressly allowed in Paragraph II.G. below. The Company's decision to make an incremental expenditure and/or to reallocate its budget as provided in this Paragraph II.C shall be based on the justification that incremental expenditure and/or reallocation is in the best interest of the Company's energy efficiency and market transformation programs and the Company's customers. Provided, however, that any such reallocation involving more than forty-five percent (45%) of the applicable program budget shall require the approval of the Department. Consistent with the practice in the other energy efficiency settlements, the Company also seeks to continue the discretionary flexibility to refine or enhance programs and reallocate monies away from measures/programs it deems to be non-cost-effective (or less cost-effective than alternatives) or toward programs it deems relatively more beneficial without advance notice to the Department, provided that any such refinement, enhancement or reallocation does

energy efficient technologies or practices."

not exceed twenty-five percent (25%) of the applicable budget for either of the residential or C&I energy efficiency efforts described above and, provided further, that no funds shall be transferred away from low-income programs without ninety (90) days notice to LEAN and the express approval of the Department after public notice and the opportunity to be heard.

The Settling Parties agree that implementation of the energy efficiency and market transformation initiatives listed above are in the best interests of the Company's customers because of the benefits available in terms of 1) market transformation; 2) quality of service provided to customers; 3) increased customer satisfaction and awareness; 4) the potential effect on customer productivity and competitiveness; 5) the potential for these efforts to further economic development within the Commonwealth of Massachusetts; and 6) the potential, though not quantified, long- and short-term environmental benefits associated with the implementation of the market transformation/market-driven energy efficiency initiatives. See Cambridge Electric Light Company/Commonwealth Electric Company, D.P.U. 95-95 Settlement at 5; see also D.P.U. 95-114 Settlement at 12. The Company's total market transformation recoverable expenditure budget for the five-year Pre-Approval period requested in the March 30, 2004 filing is \$5,788,117 (\$5,206,143 in the residential sector and \$581,974 in the C&I sector). A summary of these expenditures is included in Exhibit One.

- D. In each year of the Pre-Approval Period, the Company will file an informational annual summary report with the Department and the DOER, including a description of the levels of savings (to the extent determinable), participation and spending for

such programs and whether the Company plans to allocate or reallocate funds to measures/programs it deems to be more beneficial to customers in accordance with this Section II. A template of the reporting format to be used is attached as Exhibit Two. This annual report will be submitted sixty (60) days after the close of the twelve-month reporting period. The Company will also submit interim informational status reports to the Department and the DOER on a six and nine month basis for each year during the Pre-Approval Period and will include information concerning the participation and expenditures by program. A template for these informational six and nine month reports is also included in Exhibit Two. These six- and nine-month reports will be submitted forty-five (45) days after the close of the six- and nine-month reporting periods.

- E. The Settling Parties agree that the implementation of the Company's residential and C&I energy efficiency programs, and the Company's market transformation initiatives will: result in benefits to all customers; reflect the particular circumstances of the Company and its customers; further the Department's objectives in terms of continuing market-driven energy efficiency and market transformation efforts in a competitive environment; and continue the Company's current existing energy efficiency effort, with the appropriate enhancements and flexibility described herein. The Settling Parties further agree that the energy efficiency programs provided for in this Settlement serve important societal goals and directly respond to the policy goals of the Department and the DOER.
- F. The Company has both the authority and the responsibility to monitor and evaluate, on an on-going basis, the effectiveness and cost-effectiveness of its programs in

accordance with the Final Cost-Effectiveness Screening Guidelines adopted by the Department in D.T.E. 98-100 on February 7, 2000. Based upon its ongoing review of cost-effectiveness of its programs, the Company may determine whether to reallocate monies away from measures/programs set forth in Paragraphs II.A., II.B. and II.C. above, toward programs and measures that it deems are relatively more beneficial for customers. The Company's decision to reallocate its budget shall be based on the justification that reallocation is in the best interest of the Company's energy efficiency and market transformation programs and the Company's customers. Except for reallocations regarding market transformation initiatives (which are expressly provided for in Paragraph II.C above), any such reallocation involving over twenty-five percent (25%) of the overall budget for either the residential energy efficiency programs or the C&I energy efficiency programs shall require the approval of the Department. Provided, however, that no funds shall be transferred away from low-income programs without ninety (90) days notice to LEAN and the express approval of the Department after public notice and the opportunity to be heard. Exhibit Three contains a brief description of the cost-effectiveness screening method used by the Company in developing the March 30, 2004 Filing as well as plans for a C&I program savings evaluation collaborative effort that the Company will participate in during the Pre-Approval Period.

- G. During the Pre-Approval Period, the Company may expend, and seek recovery of, funds for its energy efficiency programs, including market transformation/market-driven energy efficiency initiatives, in addition to or in excess of the pre-approval amounts set forth in Paragraphs II.A., II.B. and II.C. above, if such additional

expenditures are cost-effective or if, in its discretion, the Company determines that such additional expenditures are in the best interests of the Company's energy efficiency programs and the Company's customers based upon then current circumstances; provided, however, that, while the other Settling Parties shall consider in good faith any such additional expenditures, the other Settling Parties shall not be bound to support the recovery of such additional expenditures unless in their respective discretions, the Company has shown the cost-effectiveness or benefits of such additional expenditures.

- H. Cost recovery, including recovery of lost margins (subject to the Rolling Period Methodology) and incentives, shall continue through the conservation charge ("CC") decimal mechanism as approved and found reasonable in the D.T.E. 01-27 Settlement, the D.P.U. 91-272 Settlement, the D.P.U. 95-117 Settlement, the D.P.U. 96-76 Settlement and the D.T.E. 96-98 Settlement. The Company will collect lost margins for savings resulting from the residential and C&I energy efficiency and market transformation programs as set forth in the March 30, 2004 Filing, but will not collect lost margins for savings resulting from educational/training market transformation initiatives described in Paragraph II.C. above (i.e. the Massachusetts Building Code Support Program and similar purely educational and training efforts). The Company shall have the right to propose lost margin recovery with respect to new market transformation initiatives during the term of the Pre-Approval Period and be eligible for such recovery for such new market transformation initiatives provided that it can present quantifiable savings projections with respect thereto which are approved by the Department. The Company shall be eligible to earn

incentives with respect to its energy efficiency efforts in accordance with the methodology set forth in the March 30, 2004 Filing, which methodology is expressly derived from and based upon §5 of the Department's D.T.E. 98-100 Final Guidelines with respect to shareholder incentives. In this regard, Exhibit Four sets forth an updated Attachment E (Goals and Incentives) to be used during the Pre-Approval Period, that includes a savings-based incentive for certain non-market transformation efforts. The Settling Parties have agreed not to foreclose an incentive structure for low-income programs that includes goals other than direct therm savings for future years in the Pre-Approval Period.

- I. The Settling Parties agree that the energy efficiency programs (including market transformation initiatives) provided for in this Settlement serve societal goals and respond to the policy goals of the Department and DOER. The Settling Parties also agree that such energy efficiency programs are appropriately undertaken by the Company at this time in light of its current role in the increasingly more competitive natural gas industry.

III. CONDITIONS OF SETTLEMENT

- A. This Settlement shall not be deemed in any respect to constitute an admission by any party as to the merits of any allegation or contention in this proceeding. The making of this Settlement establishes no principles or precedent and shall not be deemed to foreclose any party from making any contention in any future proceeding, except as to those issues that are resolved by approval of this Settlement Agreement.

- B. Other than as expressly stated herein, the acceptance of this Settlement shall not in any respect constitute a determination by the Department as to the merits of any allegations, contentions, or issues made in this or any subsequent proceeding.
- C. This Settlement is expressly conditioned upon the Department's approval of all provisions herein, without change or condition, by no later than September 15, 2004.
- D. The discussions (including work-papers, documents, etc. produced in connection therewith) which have produced this Settlement have been conducted with the explicit understanding that all offers of settlement and discussions relating thereto are and shall be privileged, and shall be without prejudice to the position of any party presenting such offer or participating in any such discussion, and are not to be used in any manner in connection with these or other proceedings involving any of the parties to this Settlement or otherwise.
- E. This Settlement is submitted on the condition that, in the event the Department does not approve of it in its entirety, it shall be deemed withdrawn and void and shall not constitute any part of the record in this proceeding or be used for any other purpose.
- F. This Settlement constitutes the entire agreement between the parties regarding the subject matter hereof. All previous agreements, discussions, communications, and correspondence regarding the subject matter hereof are superseded by the execution of this Settlement.

G. In support of this Settlement, the parties hereby move that all documents filed by the Company (including the March 30, 2004 Filing and this Settlement Agreement) in this proceeding be admitted into the record of this proceeding.

BAY STATE GAS COMPANY

By: Stephen H. Bryant / EL
Stephen H. Bryant, President
Bay State Gas Company
300 Friberg Parkway
Westborough, MA 01581
(508) 836-7000

DEPARTMENT OF TELECOMMUNICATIONS
AND ENERGY
SETTLEMENT INTERVENTION STAFF

By: Jeanne Voveris / EL
Jeanne Voveris, Esq.
Department of Telecommunications
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THE DIVISION OF ENERGY RESOURCES

By: Steven I. Venezia / EL
Steven I. Venezia, Esq.
Division of Energy Resources
100 Cambridge Street Suite 1020
Boston, MA 02114

THE LOW-INCOME INTERVENORS

By: Jerrold Oppenheim / EL
Jerrold Oppenheim, Esq.
LEAN
57 Middle Street
Gloucester, MA 01930

Dated: As of August 12, 2004

Exhibit One
Program Budgets

**BAY STATE GAS COMPANY
DSM DETAILED BUDGET SUMMARY
TABLE 1**

Residential Detailed Budget - 2004/2005

Line	PROGRAM/INITIATIVE	Program Planning & Administration	Marketing/ Development of MTU Training	Customer Incentives	Program Implementation	Evaluation & Market Research	Total
	Residential Program Budgets:						
1	High Efficiency Heating Rebate	40,902	92,381	390,000			
2	High Efficiency Water Heating Rebate	3,776	8,659	36,000	37,000	17,539	577,822
3	ENERGY STAR Clock Thermostat Rebate	2,622	5,988	25,000	2,580	1,619	52,633
4	ENERGY STAR Homes	7,102	13,342	54,340	12,000	1,124	46,734
5	ENERGY STAR Windows	10,488	24,552	100,000	40,000	2,444	117,228
6	Custom Weatherization Program	60,243	91,375	333,445	11,500	4,497	151,037
7	Total Residential Budget	\$ 125,132	\$ 236,297	\$ 938,785	\$ 273,332	\$ 47,223	\$ 1,620,769

Low-Income Detailed Budget - 2004/2005

Line	PROGRAM/INITIATIVE	Program Planning & Administration	Marketing/ Development of MTU Training	Customer Incentives	Program Implementation	Evaluation & Market Research	Total
	Low-Income Program Budgets:						
	Residential Low-Income						
8	Residential						
8a	Carryover	95,345	50,000	592,725	137,294	0	875,363
9	Total Low-Income Budget	\$ 95,345	\$ 50,000	\$ 592,725	\$ 137,294	\$ -	\$ 875,363

Commercial & Industrial Detailed Budget - 2004/2005

Line	PROGRAM/INITIATIVE	Program Planning & Administration	Marketing/ Development of MTU Training	Customer Incentives	Program Implementation	Evaluation & Market Research	Total
	Commercial & Industrial Program Budgets:						
10	ENERGY STAR Clock Thermostat Rebate	305	150	2,500	1,200	112	4,267
11	Infrared Rebate	3,046	1,499	25,000	1,075	1,124	31,744
12	High Efficiency Heating Rebate	1,858	914	15,250	1,305	686	20,013
13	High Efficiency Water Heating Rebate	365	180	3,000	215	135	3,895
14	HE Cooking Equipment incentive	1,949	959	16,000	860	720	20,488
15	Custom	173,645	63,507	1,910,781	629,177	21,000	2,798,111
16	Total C&I Budget	\$ 181,168	\$ 67,210	\$ 1,972,531	\$ 633,832	\$ 23,777	\$ 2,878,518
17	COMPANY TOTALS	\$ 401,645	\$ 353,507	\$ 3,504,041	\$ 1,044,458	\$ 71,000	\$ 5,374,650

**BAY STATE GAS COMPANY
DSM DETAILED BUDGET SUMMARY
TABLE 2**

Line	PROGRAM/INITIATIVE	2004-05	2005-06	2006-07	2007-08	2008-09
Residential Program Budgets:						
1	High Efficiency Heating Rebate	\$577,822	\$546,372	\$556,323	\$518,358	\$530,995
2	High Efficiency Water Heating Rebate	\$52,633	\$53,894	\$58,838	\$54,695	\$59,145
3	ENERGY STAR Thermostat Rebate	\$46,734	\$54,364	\$64,402	\$64,482	\$73,248
4	ENERGY STAR Homes	\$117,228	\$118,435	\$125,877	\$134,958	\$144,157
5	ENERGY STAR Windows	\$151,037	\$206,980	\$271,406	\$299,633	\$324,125
6	Custom Weatherization Program	\$675,314	\$648,907	\$661,479	\$678,525	\$693,498
7	Total Residential Budget	\$1,620,769	\$1,628,951	\$1,738,326	\$1,750,651	\$1,825,169
Low Income Program Budgets:						
Residential Low-Income						
8	Residential	\$875,363	\$939,861	\$956,109	\$972,694	\$989,624
9	Total Low-Income Budget	\$875,363	\$939,861	\$956,109	\$972,694	\$989,624
Commercial & Industrial Program Budgets:						
10	ENERGY STAR Thermostat Rebate	\$4,267	\$5,216	\$6,162	\$6,149	\$6,972
11	Infrared Rebate	\$31,744	\$36,963	\$42,216	\$47,999	\$53,372
12	High Efficiency Heating Rebate	\$20,013	\$27,158	\$34,166	\$36,400	\$42,461
13	High Efficiency Water Heating Rebate	\$3,895	\$5,673	\$7,409	\$7,769	\$9,218
14	HE Cooking Equipment Incentive	\$20,488	\$24,857	\$29,206	\$33,900	\$38,298
15	Custom Program	\$2,798,111	\$2,868,064	\$2,939,765	\$3,013,259	\$3,088,591
16	Total Commercial & Industrial Budget	\$2,878,518	\$2,967,932	\$3,058,925	3,145,476	3,238,913
17	Five Year Budget Totals	\$5,374,650	\$5,536,744	\$5,753,359	\$5,868,821	\$6,053,705

Exhibit One-A

Low-Income Program Enhancements

- 1) **Eligibility for Low-Income Programs.** In the event that in any given program year during the Pre-Approval Period, the Company is not spending or does not reasonably expect to spend the full amount of its Residential Low-Income Program budget by serving customers on its residential low-income rate, the Company will expand eligibility for participation in its Residential Low-Income Program to include residential customers with an annual income at or below sixty percent (60%) of the state median income. It is agreed that this threshold is currently met for the Company and that the sixty percent (60%) of state median income eligibility criterion will begin to be applied by the Company immediately upon approval of this Settlement. Screening for such eligibility shall be carefully conducted by the applicable low-income agency implementing the Program. Arrearages for any then current customer of the Company will not disqualify that customer from participation in the program; inactive or shut-off customers are not eligible for program participation. The Settling Parties stipulate and agree that the foregoing arrangement does not create any precedent whatsoever with respect to ratemaking or rate design matters, including without limitation eligibility criteria for the Company's low-income rate(s) and no party shall cite this arrangement in support of any proposed or advocated change to the Company's rates, including without limitation eligibility for low-income rates. The continued use of the sixty percent (60%) of state median income criterion for eligibility for participation in the Low-Income Program will be re-examined on an annual basis at the end of each program year based on the totality of circumstances then being experienced in the field, including without limitation, participation levels in the Low-Income Program and actual and projected expenditures compared with pre-approved Low-Income Program budget levels. Based upon such re-examination, this criterion may, as applicable, be suspended or restored for the applicable upcoming program year.
- 2) **Low-Income Program Measures and Pricing.** The Company will offer the measures indicated on Attachment A at the prices indicated on Attachment A in connection with its Low-Income Program. (Prices for measures currently offered by the Company will be effective as soon as reasonably practicable following the execution of this Agreement; prices for any measure not currently offered by the Company shall be effective upon the Department's approval of this Settlement.) These prices will not be increased by the implementing low-income agencies (including the Low-Income Intervenor) prior to July 1, 2006. The prices for such measures may change on July 1, 2006 and every two years thereafter only pursuant to a competitive RFP process conducted under the supervision of the Department of Housing and Community Development (or a successor agency) in which the Company is eligible to actively participate, and provided further that all applicable measures continue to be cost-effective. To the extent the Company does not have savings data or estimates with respect to any measure on Attachment A, it is authorized to utilize the savings data or estimates for any such measure accepted or approved by the Department for any other Massachusetts local distribution company or electric company.

With respect to the measures listed on Attachment A, the Settling Parties further agree that:

- Heating system replacements and repairs will be eligible measures provided that cost-effectiveness is established in accordance with the Department's guidelines. The Company contribution for any repair will be capped at five hundred dollars (\$500) per unit.

- With respect to the miscellaneous repair measure indicated on Attachment A, lead vendor approval of the applicable repair work will be required in every case (or Company approval in lieu thereof if no lead vendor is active for the Company) and there will be a five hundred dollar (\$500) cap for this measure per household and an overall annual cap on such measures set at two percent (2%) of the Company's annual budget for low-income measures. This two percent (2%) annual cap will be re-examined on an annual basis at the end of each program year based on actual in-the-field data and discussions with LEAN. Based upon such re-examination, this cap may be adjusted for the applicable upcoming program year. In addition, any repair funded by the Company must be projected to yield cost-effective savings or to enable the installation of other cost-effective savings measures (including the cost of such repair in such calculations).
 - The Company will account separately (price and savings) for air sealing and the enumerated measures (door kits and sweeps, automatic sweeps, window weatherstrip, sash locks, glass lites) listed on Attachment A, under the "Misc" heading.
- 3) Best Practices Task Force. During the Pre-Approval Period, the Company will participate, with no incremental cost, charge or obligation, in the Low-Income Best Practices Task Force currently constituted of representatives of LEAN and the Commonwealth's electric energy efficiency program administrators.
- 4) Infrared Scanner. As part of its Residential Low-Income Program and Program Year 2004/2005 low-income budget, the Company will contribute to the Massachusetts gas utility consortium for the purpose of purchasing an infrared scanner.

ATTACHMENT A

Measure and Pricing List for Low Income Program 2004

	2004 NEW
ATTIC INSULATION	
Attic Flat/open blow R-38	\$ 0.92
Attic Flat R-30 open/restricted	\$ 0.87
Attic Flat R-20 open/restricted	\$ 0.81
Attic Flat R-10 open/restricted	\$ 0.75
Attic Slope R-30 open/restricted	\$ 0.94
Attic Slope R-20 open/restricted	\$ 0.89
Attic Slope R-10 open/restricted	\$ 0.81
Attic Kneewall R-11	\$ 0.87
Kneewall Floor R-11	\$ 0.87
Attic Access Finished	\$ 70.00
Temporary Access	\$ 52.00
Crawl Space R-19 with poly vapor barrier	\$ 1.68
Thermadome	\$ 130.00
w/s (Q-Ion) & R-19 attic hatch	\$ 25.00
R-11 FGB in open rafters/walls	\$ 0.87
R-19 FGB in open rafters/walls	\$ 0.97
Reinforced poly/R-12 cellulose open rafters	\$ 1.10
Reinforced poly/R-20 cellulose open rafters	\$ 1.20
Attic stairs - fill with cellulose - per stairwell	\$ 95.00
BASEMENT INSULATION	
Garage Ceiling/Floor R-30	\$ 1.00
Sill insulation R-11 or greater	\$ 1.00
Basement overhead insulation	\$ 1.00
Crawlspace overhead insulation 4' high or less R-19	\$ 1.18
Perimeter wrap R-7 Foil faced ductwrap	\$ 1.15
6 ml poly on ground	\$ 0.50
ATTIC VENTILATION	
Roof Vent	\$ 55.00
Turbine	\$ 120.00
Stack 12"	\$ 111.00
Propa Vent	\$ 2.80
Roof Vent #135	\$ 75.00
Gable Vent	\$ 67.00
Soffit Vent	\$ 20.00
Ridge Vent	\$ 15.00
Attic Bypass (2 hr. max.)	\$ 45.00
Vent Dryer/Bath Fan	\$ 60.00
Varipitch vent	\$ 83.00
Wooden window vent - custom built to 42 ui	\$ 75.00
Additional ui over 42 for window vent	\$ 4.50
Additional for 1/2 vent	\$ 4.00
WALL INSULATION	
Single nailed asbestos/asphalt	\$ 1.10
Double nailed asbestos/aluminum	\$ 1.20
Brick/ Stucco	\$ 1.84
Interior Wall	\$ 1.10
Clapboard/Wood/Vinyl	\$ 0.95
Test Drill	\$ 50.00
Drill rough plaster patch or finish wood plug	\$ 1.03
Drill finish patch plaster	\$ 1.08
MISC	
Knob/Tube Paper Inspect - only when knob/tube present	\$ 81.00
Blower Door Setup: CFM Pre _____ Post _____	\$ 45.00

Air Sealing per hour- includes materials & labor	\$ 45.00
Basement sealing per hour - includes materials & labor	\$ 45.00
Duct sealing with Mastic - includes materials & labor	\$ 45.00
Additional Air Sealing Measures where cost effective	
Door Kits	\$ 31.00
Door Sweeps	\$ 10.25
Automatic Sweeps	\$ 16.50
Weatherstrip Windows per side	\$ 3.50
Sash Locks	\$ 6.50
Glass Lite Replacement	\$ 30.00
Miscellaneous Repairs	
Glass replacement per ui over 64	\$ 1.00
Repair window	\$ 21.00
R-5 Ductwrap or R-max on door	\$ 30.50
Lockset	\$ 47.50
Repair/Refit Door	\$ 33.50
Plexiglass for door window per ui	\$ 1.00
Caulking siliconized latex - per tube	\$ 11.00
Labor - per man hour	\$ 43.00
HEATING SYSTEMS	
Water Heater Wrap	\$ 33.00
Duct Insulation SF/Tape Seam (sq. ft.)	\$ 1.83
Hydronic Pipe Insulation to (1") copper R5	\$ 2.39
Hydronic Pipe Insulation 1.25" - 1.5" copper R5	\$ 2.82
Steam Pipe Insulation 1.5" - 2." iron pipe R5	\$ 3.94
Steam Pipe Insulation 2.5" iron pipe R5	\$ 4.60

Exhibit Two
Reporting Template

Exhib

**[INSERT COMPANY NAME, D.T.E. 04-xx]
ENERGY EFFICIENCY PROGRAM
INTERIM STATUS REPORT
[INSERT DATES]**

Programs	TOTAL EXPENDITURES Thru [insert date]	BUDGET	PARTICIPATION/ SAVINGS
<u>Residential</u>			
ENERGY STAR Thermostat Rebate	\$	\$	_____ rebates
ENERGY STAR Homes	\$	\$	_____ certifications
ENERGY STAR Windows	\$	\$	_____ rebates
High Efficiency Heating Rebate	\$	\$	_____ rebates
High Efficiency Water Heating Rebate	\$	\$	_____ rebates
Weatherization Programs	\$	\$	_____ therms
Sub-total	\$0	\$0	
<u>Low Income</u>			
	\$0	\$0	_____ therms
<u>Commercial</u>			
Traditional or Custom	\$	\$	_____ therms
Infrared Rebate	\$	\$	_____ rebates
ENERGY STAR Thermostat Rebate	\$	\$	_____ rebates
High Efficiency Heating Rebate	\$	\$	_____ rebates
High Efficiency Water Heating Rebate	\$	\$	_____ rebates
Efficient Food Service Equipment	\$	\$	_____ rebates
Sub-total	\$0	\$0	
Total	\$0	\$0	

it 2a

[Insert Company Name, D.T.E. 04-xx]
 Energy Efficiency Program - Annual Status Report
 May 1, 200x through April 30, 200x

Exhibit 2b
 Page 1 of 1

Residential

Line	PROGRAM/INITIATIVE	Program Planning & Administration Expenses	Program Marketing Expenses	Customer Incentive Expenses	Program Implementation Expenses	Program Maintenance Expenses	Program Evaluation Expenses	Program Administration Expenses	Program Total Expenses
1	ENERGY STAR Thermostat Rebate								
2	ENERGY STAR Homes								
3	ENERGY STAR Windows								
4	High Efficiency Heating Rebate								
5	High Efficiency Water Heating Rebate								
6	Weatherization								
7	Total Residential								

Low-Income

Line	PROGRAM/INITIATIVE	Program Planning & Administration Expenses	Program Marketing Expenses	Customer Incentive Expenses	Program Implementation Expenses	Program Maintenance Expenses	Program Evaluation Expenses	Program Administration Expenses	Program Total Expenses
8	Residential								
9	Total Low-Income								

Commercial & Industrial

Line	PROGRAM/INITIATIVE	Program Planning & Administration Expenses	Program Marketing Expenses	Customer Incentive Expenses	Program Implementation Expenses	Program Maintenance Expenses	Program Evaluation Expenses	Program Administration Expenses	Program Total Expenses
10	Traditional or Custom								
11	Infrared Rebate								
12	ENERGY STAR Thermostat								
13	High Efficiency Heating Rebate								
14	High Efficiency Water Heating Rebate								
15	Efficient Food Service Equipment								
16	Total C&I								
17	COMPANY TOTALS								

**[INSERT COMPANY NAME, D.T.E. 04-xx]
Energy Efficiency Program Changes**

Residential Programs

Program Name	Program Year (200x)	Modifications Planned for Program Year (200x)
ENERGY STAR Thermostat	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS
ENERGY STAR Homes	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS
ENERGY STAR Windows	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS
High Efficiency Heating Rebate	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS
High Efficiency Water Heating Rebate	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS
Weatherization	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS

**[INSERT COMPANY NAME, D.T.E. 04-xx]
Energy Efficiency Program Changes**

Low-Income Programs

Program Name	Program Year 200x	Modifications Planned for Program Year 200x
Residential Low-Income Single – Family	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS.
C&I Low-Income Multi-Family	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS

**[INSERT COMPANY NAME, D.T.E. 04-xx]
Energy Efficiency Program Changes**

Commercial & Industrial Programs

Program Name	Program Year 200x	Modifications Planned for Program Year 200x
Traditional or Custom	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS
Infrared Rebate	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS.
ENERGY STAR Thermostat	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS
High Efficiency Heating Rebate	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS
High Efficiency Water Heating Rebate	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS.
Efficient Food Service Equipment	DESCRIBE PROGRAM	DESCRIBE MODIFICATIONS

**[Insert Company Name, D.T.E. 04-xx]
200x Energy Efficiency Forecasted Program Budget
May 1, 200x through April 20, 200x**

Residential Detail

Line	PROGRAM/INITIATIVE	Program Planning & Administration	Program Marketing	Customer Incentives	Program Implementation	Availability/Market Research	Total
	Residential Program Budgets						
1	ENERGY STAR Thermostat Rebate						
2	ENERGY STAR Homes						
3	ENERGY STAR Windows						
4	High Efficiency Heating Rebate						
5	High Efficiency Water Heating Rebate						
6	Weatherization						
7	Total Residential Budget						

Low-Income Detail

Line	PROGRAM/INITIATIVE	Program Planning & Administration	Program Marketing	Customer Incentives	Program Implementation	Availability/Market Research	Total
	Low-Income Program Budgets						
8	Residential						
9	Total Low-Income Budget						

Commercial & Industrial Detail

Line	PROGRAM/INITIATIVE	Program Planning & Administration	Program Marketing	Customer Incentives	Program Implementation	Availability/Market Research	Total
	Commercial/Industrial Program Budgets						
10	Traditional or Custom						
11	Infrared Rebate						
12	ENERGY STAR Thermostat						
13	High Efficiency Heating Rebate						
14	High Efficiency Water Heating Rebate						
15	Efficient Food Service Equipment						
16	Total C&I Budget						
17	COMPANY TOTALS						

[INSERT COMPANY NAME D.T.E. 04-xx]
Energy Efficiency Program Portfolio

Benefit/Cost Ratios by Program
Lifetime Impacts of Measures Installed from 200x through 200x

Program/Initiative	Measure ID#	Benefits (\$/yr)	Costs (\$/yr)	B/C Ratio
Company-Specific Programs				
-Residential Weatherization	NA			
-Residential Low-Income	NA			
-C&I Custom Measures	NA			
Total Company Specific Programs		\$0	\$0	0.00
Regional GasNetworks Programs				
-ENERGY STAR Thermostat Rebate	10			
-ENERGY STAR Homes	25			
-ENERGY STAR Windows	35			
-Residential High Efficiency Heating	20			
-Commercial High Efficiency Heating	20			
-Residential and C&I High Efficiency Water Heating Rebate	20			
-Infrared Rebate	20			
-Efficient Food Service Equipment	15			
Total Regional Programs		\$0	\$0	0.00
TOTAL ALL PROGRAMS		\$0	\$0	0.00

Benefit/cost ratios have been calculated in accordance with the guideline established in D.T.E. Docket 98-100 using the Total Resource Cost Test.

[Insert Company Name, D.T.E. 04-xx]
Energy Efficiency Program

Summary of 200x Performance Incentives

	Program/Initiative	Program Budget	Measure Unit	Goal	Incentive Dollars
	Residential Programs				
1	ENERGY STAR Thermostat Rebate		rebates		\$0
2	ENERGY STAR Homes		certifications		\$0
3	ENERGY STAR Windows		rebates		\$0
4	High Efficiency Heating Rebate		rebates		\$0
5	High Efficiency Water Heating Rebate		rebates		\$0
6	Weatherization Programs *		therms		\$0
	Commercial & Industrial Programs				
7	Traditional or Custom *		therms		\$0
8	Infrared Rebate		rebates		\$0
9	ENERGY STAR Thermostat Rebate		rebates		\$0
10	High Efficiency Heating Rebate		rebates		\$0
11	High Efficiency Water Heating Rebate		rebates		\$0
12	Efficient Food Service Equipment		rebates		\$0
13	Total				\$0

If the Company achieves less than 75% of goal (the Threshold Performance Level), it will receive no incentive for that program.
 If the Company achieves 100% of goal (the Design Performance Level), it will receive 100% of the incentive for that program.
 If the Company achieves 125% of goal (the Exemplary Performance Level), it will receive 125% of the incentive for that program.
 Between 75% and 125% of goal, the incentive will be based on a linear interpolation between the Threshold and Exemplary Performance Levels.
 For Non-numeric goals there are no thresholds, company must meet design goal.

After Tax Shareholder Incentive = Average Yield of three-month Treasury Bill/ (.60775) x Energy Efficiency Budget ⁽¹⁾

(1) Average Yield of the three-month U.S. T-Bill assumed to be x.xx%
 and .60775 = 1 minus the effective corporate tax rate.

* Includes low income weatherization programs

Exhibit Three

Description of Cost-Effectiveness Screening Used in the Company's March 30, 2004 Filing

I. Summary of Cost-Effectiveness Screening

Summary Description of Cost-Effectiveness Screening Used in the Company's March 30, 2004 Filing

The Programs contained and described in the Company's Five Year Energy Efficiency Plan proposal were screened using the Total Resource Cost ("TRC") test in compliance with DTE 98-100.

To achieve this task, the Company, in collaboration with other gas LDC's in the Commonwealth, and with the assistance of an independent third party, developed a template to define and establish certain common assumptions² and values for screening the energy efficiency programs. These common assumptions and values were then used as inputs into a regionally accepted TRC Screening Tool/Model³ along with company-specific anticipated program activity and assumptions over the next five years. As such, the Company's programs, and degree of cost effectiveness are comparable to many other gas energy efficiency programs offered in the Commonwealth.

A summary of the company-specific and regional program cost-effectiveness screening results may be found in the Attachment C-1 of Company's March 30, 2004 filing. All proposed programs were found to be cost-effective.

II. C&I Program Savings Evaluation Collaborative

In the first year of the Pre-Approval Period, the Company will participate with New England Gas Company, NSTAR Gas Company and The Berkshire Gas Company, and staff members of the DOER and DTE to review methodologies for the calculation of savings from non-market transformation programs in the C&I sector. Such collaborative will seek to compare the outputs of various C&I savings calculation methodologies employed by the particular LDCs using case studies where appropriate. The collaborative will seek to identify any significant differences in outputs and develop an understanding of any differences and the reasons for them. The collaborative will review any possible enhancements to applicable methodologies for use on a going-forward basis. The Settling Parties agree that the focus of the collaborative shall be on prospective actions and that the Company (and other LDCs) have utilized approved methodologies for calculating C&I savings in the past and such calculations shall not be required to be restated or altered as a result of the collaborative. Additionally, the Settling Parties agree that there can be sound reasons for the use of different methodologies for calculating C&I savings among different companies (e.g., differences in program structure, company infrastructure, existing databases, etc.). The Settling Parties will consider and balance the benefits and costs of determining differences or similarities in calculation methodologies. While all participants in the collaborative will consider the results in good faith, no participant in the collaborative will be compelled to agree that any one statewide C&I savings calculation method must, or should be utilized on a prospective basis.

² Common assumptions include energy savings values for regional programs/measures, the life expectancy of those regional measures, avoided costs, interest rates, etc.

³ A description of the screening tool/model may be found in Attachment C-2, Section 2.3.2, Page 7 of the Company's March 30, 2004 Filing.

Exhibit Four

Updated Goals and Incentives

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Bay State Gas Company, D.T.E. 04-49
Energy Efficiency Program

Summary of 2004-2005 Performance Incentives

	Program/Initiative	Program Budget	Measure Unit	Goal	Incentive Dollars
Residential Programs					
1	ENERGY STAR Thermostat Rebate	\$46,734	rebates	120	\$777
2	ENERGY STAR Homes	\$117,228	certifications	272	\$1,948
3	ENERGY STAR Windows	\$151,037	rebates	10,000	\$2,510
4	High Efficiency Heating Rebate	\$577,822	rebates	2,000	\$9,603
5	High Efficiency Water Heating Rebate	\$52,633	rebates	120	\$875
6	Weatherization Programs *	\$1,550,677	therms	314,257	\$25,770
Commercial & Industrial Programs					
7	Traditional or Custom	\$2,798,111	therms	1,134,423	\$46,501
8	Infrared Rebate	\$31,744	rebates	50	\$528
9	ENERGY STAR Thermostat Rebate	\$4,267	rebates	100	\$71
10	High Efficiency Heating Rebate	\$20,013	rebates	70	\$333
11	High Efficiency Water Heating Rebate	\$3,895	rebates	10	\$65
12	Efficient Food Service Equipment	\$20,488	rebates	40	\$340
Total		\$3,746,550			\$99,520

If the Company achieves less than 75% of goal (the Threshold Performance Level), it will receive no incentive for that program.

If the Company achieves 100% of goal (the Design Performance Level), it will receive 100% of the incentive for that program.

If the Company achieves 125% of goal (the Exemplary Performance Level), it will receive 125% of the incentive for that program.

Between 75% and 125% of goal, the incentive will be based on a linear interpolation between the Threshold and Exemplary Performance Levels.

For Non-numeric goals there are no thresholds, company must meet design goal.

After Tax Shareholder Incentive = Average Yield of three-month Treasury Bill/(.60775) x Energy Efficiency Budget ⁽¹⁾

(1) Average Yield of the three-month U.S. T-Bill assumed to be 1.01% and .60775 = 1 minus the effective corporate tax rate.

* Includes low income weatherization programs

Attachment B

Sample Rebate Form and List of Qualifying Measure

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